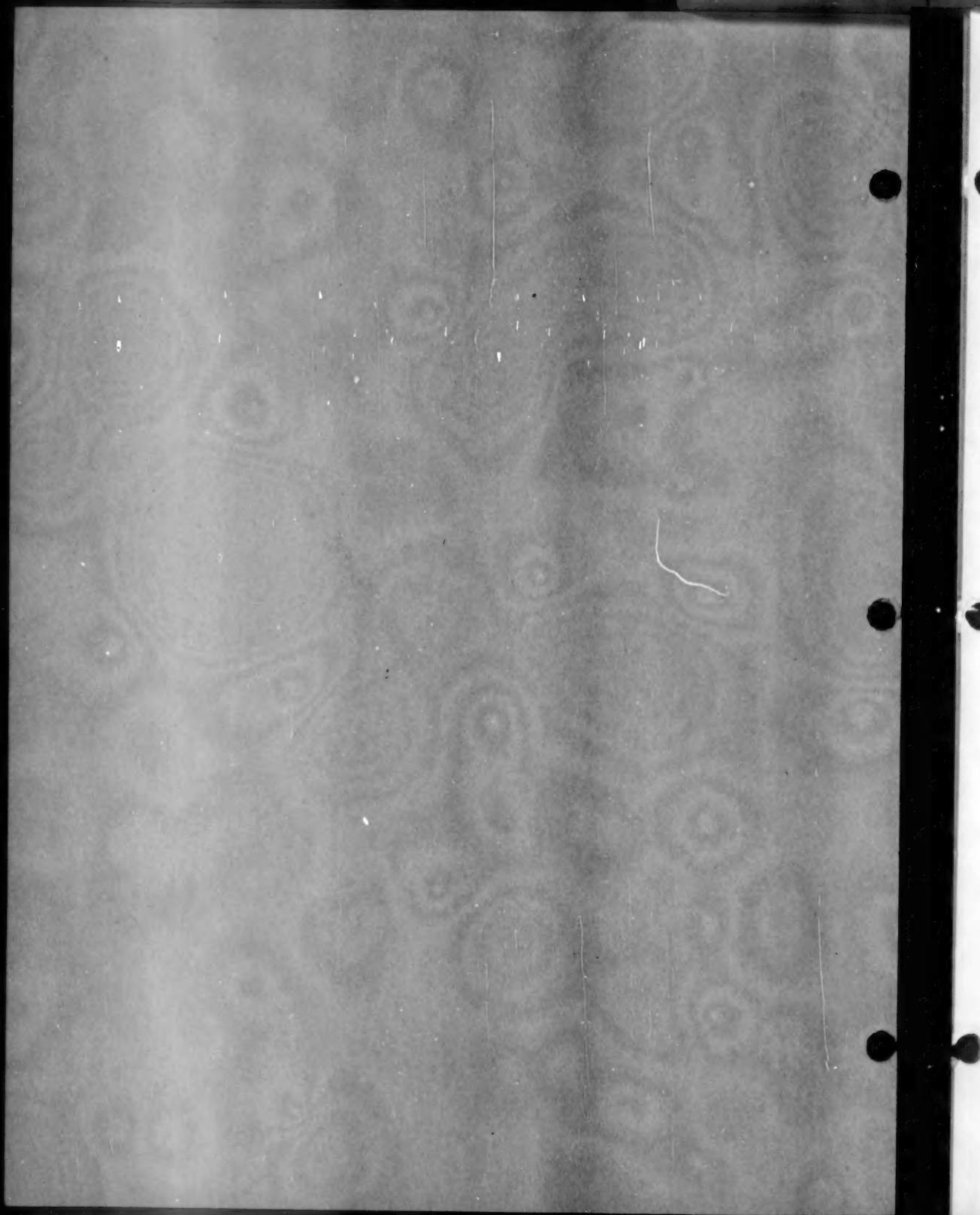


Real Estate
in
1955





The Real Estate ANALYST

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As I sell

REAL ESTATE IN 1955

THE professional forecaster in the real estate field finds himself at the present time in quite a dilemma. Our present real estate boom has continued year after year, and is now by far the longest real estate boom we have ever experienced. From the cyclical patterns of the past we would expect that real estate would be declining in value, that vacancies in residential and commercial properties would be increasing, that rents would be dropping, that the selling prices of properties would be declining, and that foreclosures would be rising. These factors would be accompanied by a declining volume of residential building, to be followed later by a declining volume of commercial building.

A careful study of the figures, city by city, shows that in almost all communities residential and office vacancies are increasing, but still by very nominal amounts. In some communities residential rents have declined, although in most communities they have held their own or have increased slightly. Values on newer residential properties have not declined, and even on the older properties which are not too obsolete, the selling price is still close to the peak. Foreclosures have been advancing and, in fact, at the present time are running approximately 23% ahead of a year ago, but again on a percentage basis of all properties, foreclosures are still at microscopic levels. New residential building, which we would normally expect to be dropping, has advanced in comparison with a year ago, and it certainly looks at the present time as if the number of dwelling units to be built in 1955 will exceed not only those built in 1953, but the high record building of 1954 as well. Office building construction is running considerably ahead of a year ago and will probably chalk up an additional advance for 1955.

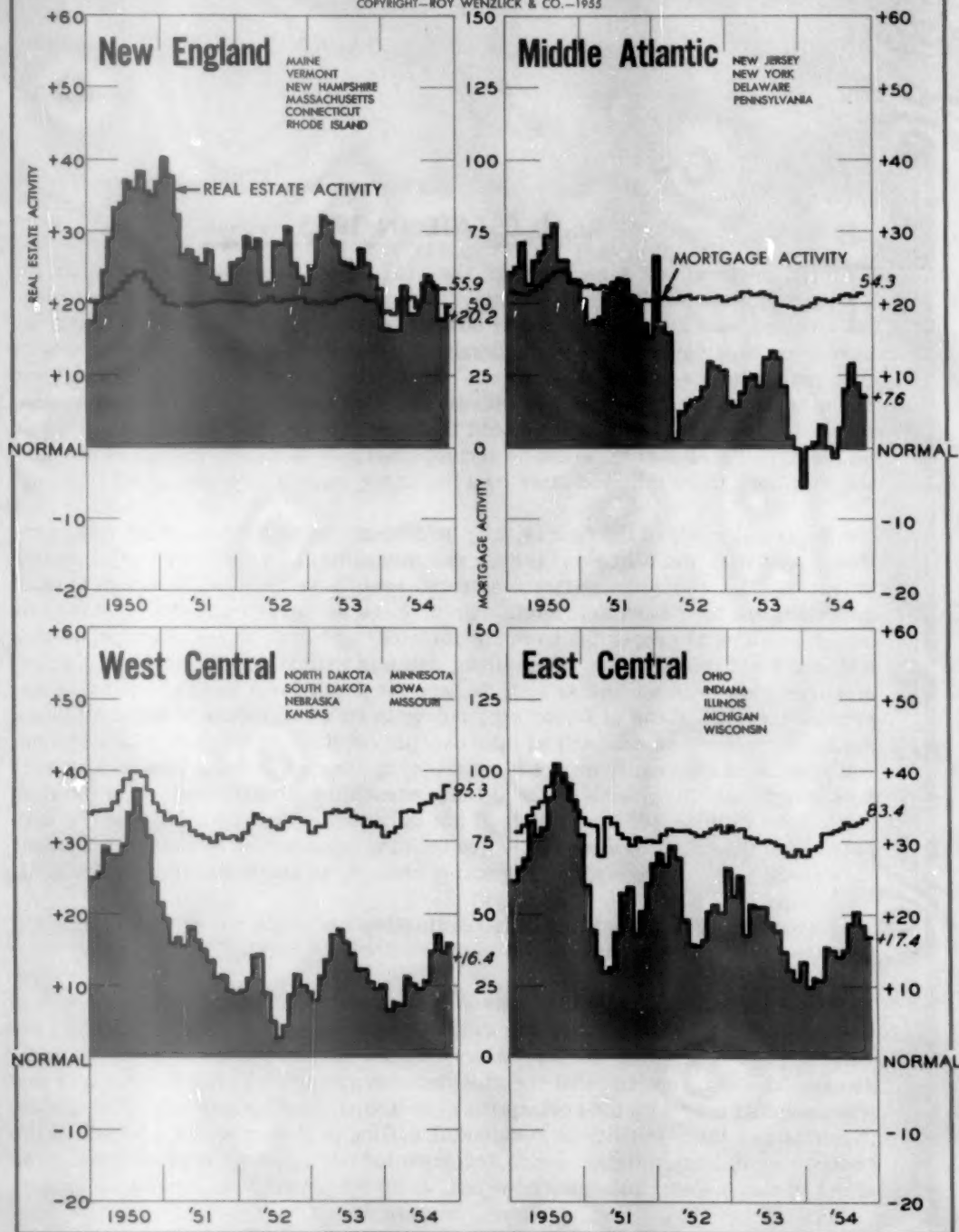
Have we learned how to avoid a readjustment and can we expect nothing but firmness and additional increases in the real estate market?

Probably the first step in a reasoned answer to this question is an effort to find out why the expected reaction has not yet taken place. By referring to the chart on page 14 showing the fluctuations in the selling prices of existing residences, it will be noticed that the rise had stopped prior to the Korean War and was resumed only with the resumption of an actual shooting war. In other words, it seems that the last fillip in residential selling prices came as a result of the general commodity inflation which accompanied our military expenditures. The effect of this Korean inflation, however, is no longer actively forcing up prices,

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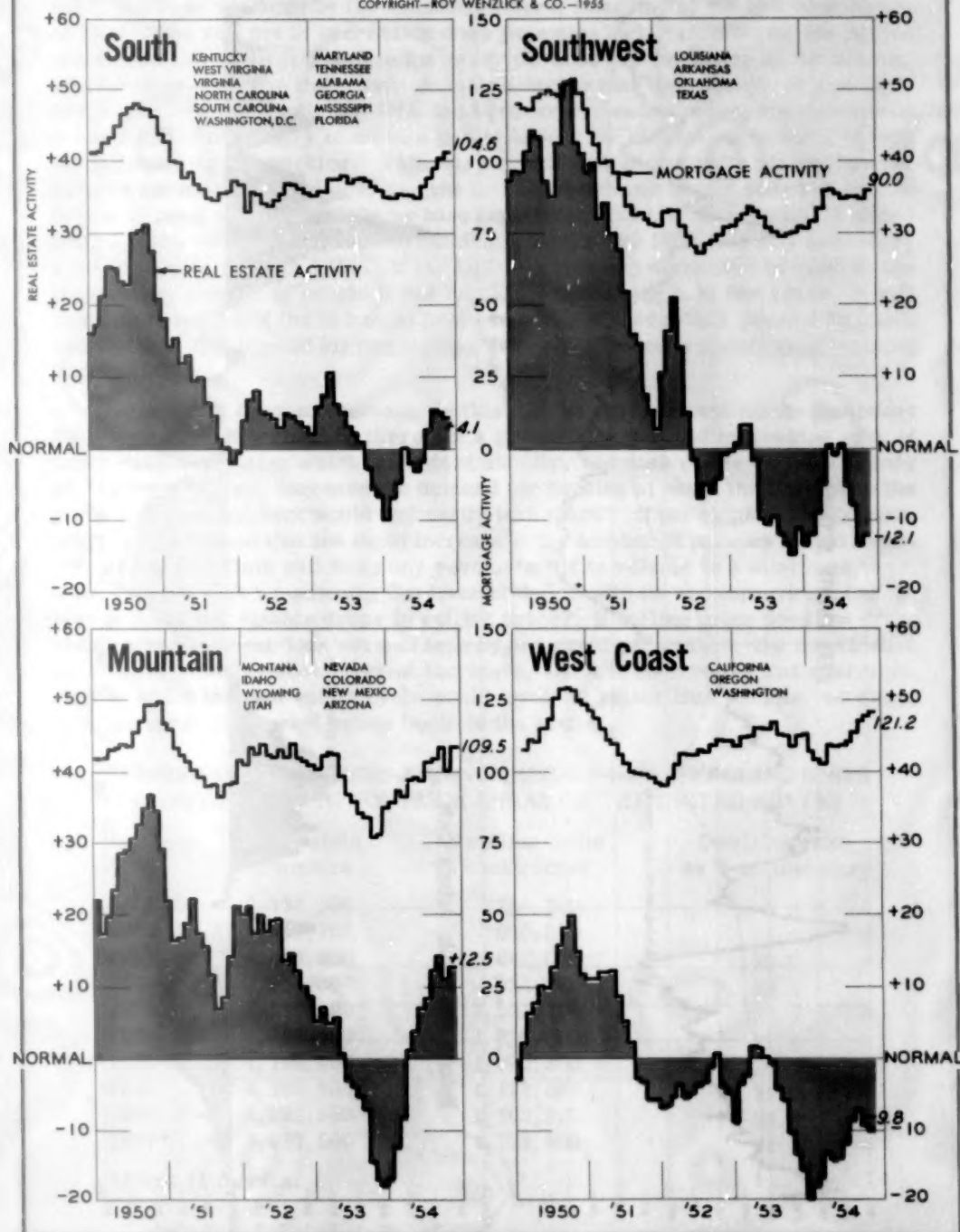
REGIONAL PATTERNS OF REAL ESTATE & MORTGAGE ACTIVITY

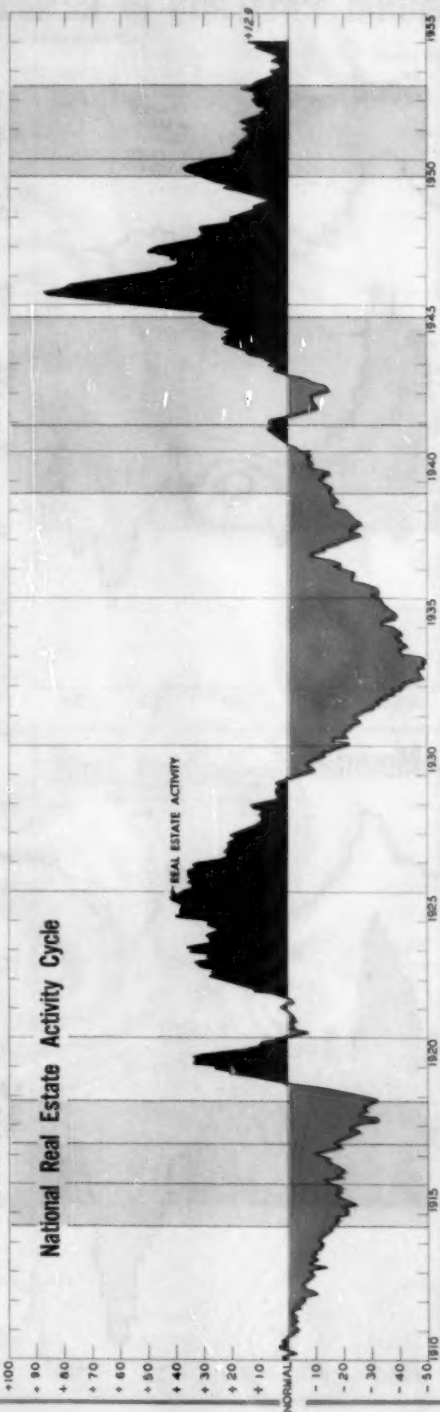
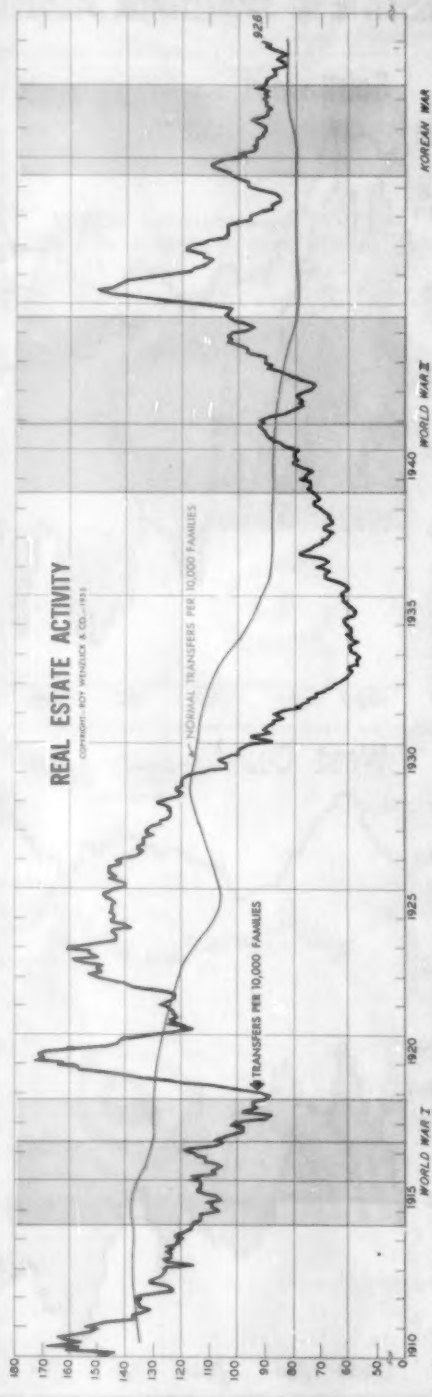
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REGIONAL PATTERNS OF REAL ESTATE & MORTGAGE ACTIVITY

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(cont. from page 1)

but it has been replaced by the unusually liberal financing of the new housing act of 1954. The new act in decreasing down payments and in lengthening the period of the loan has made it possible for many persons not formerly in the housing market to re-examine their position and to decide that they could now own their own homes. As a result, the FHA has been snowed under with applications until it has found it necessary to make a public appeal for outside appraisers to help out in lessening the backlog. This easy credit will undoubtedly strengthen the demand for existing buildings, and the increased demand should result in selling prices at least as high as those we have experienced in 1954. In addition, it should keep a large volume of residential building going through 1955, and may even carry a large volume through 1956. If the building industry continues to employ the tremendous number of people it has employed during the past few years, it will continue to be one of the principal props to continuing economic prosperity, and, coupled with the demand for new automobiles, will practically ensure good business during 1955.

The problem for the forecaster is this. If the readjustment can be postponed for a long enough period, is there not a probability that the increasing rate of new family formation which will start shortly, because of the high birth rate during the war, will increase the demand for housing at about the time when the postponed readjustment would ordinarily take place? If such should be the case, might it not happen that the rapid increase in the number of persons of marriageable age at that time will keep any readjustment in volume to a minimum, and, when coupled with a continuing Government deficit with its accompanying inflation, may prevent any sizable drops in selling price? If selling price does not drop, and if unemployment does not increase by any great percentage, the foreclosure rate would probably show no great increases, and it is conceivable that after a period in which the real estate cycle would level out rather than decline, we might advance again into a real estate boom in the sixties.

NUMBER OF TRANSFERS AND NUMBER OF NEW DWELLING UNITS
CONSTRUCTED IN NONFARM AREAS OF THE UNITED STATES

Year	Real estate transfers	Dwelling units constructed	Dwelling units as % of transfers
1945	3,767,900	209,300	5.6
1946	5,061,700	670,500	13.2
1947	4,246,900	849,000	20.0
1948	3,959,600	931,600	23.5
1949	3,577,600	1,025,100	28.7
1950	4,481,200	1,396,000	31.2
1951	4,199,000	1,091,300	26.0
1952	4,169,700	1,127,000	27.0
1953	4,292,900	1,103,800	25.7
1954*	3,987,500	1,122,800	28.2

*First 11 months.

Construction Costs in Selected Years

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**STANDARD BRICK RANCH HOUSE
WITH ATTACHED GARAGE**

1913	\$ 2,807
1919	4,416
1926	5,162
1932	3,425
1939	4,387
1945	6,071
Dec. 1952	11,641
Dec. 1953	12,077
Dec. 1954	12,119



**CALIFORNIA RANCH HOUSE
NO BASEMENT**

1913	\$2,033
1919	3,296
1926	3,693
1932	2,352
1939	3,145
1945	4,670
Dec. 1952	9,029
Dec. 1953	9,337
Dec. 1954	9,405



**CONTEMPORARY RANCH HOUSE
NO BASEMENT**

1913	\$ 2,786
1919	4,632
1926	5,118
1932	3,152
1939	4,279
1945	6,123
Dec. 1952	12,007
Dec. 1953	12,404
Dec. 1954	12,299



SIX-ROOM FRAME

1913	\$ 3,692
1919	6,139
1926	6,783
1932	4,178
1939	5,671
1945	8,115
Dec. 1952	15,914
Dec. 1953	16,440
Dec. 1954	16,566



FIVE-ROOM BRICK VENEER

1913	\$ 3,482
1919	5,478
1926	6,403
1932	4,248
1939	5,442
1945	7,531
Dec. 1952	14,440
Dec. 1953	14,952
Dec. 1954	15,074



SIX-ROOM BRICK

1913	\$ 4,241
1919	6,514
1926	7,725
1932	5,053
1939	6,092
1945	9,048
Oct. 1952	16,836
Oct. 1953	17,217
Dec. 1954	17,264



16-FAMILY APARTMENT

1913	\$ 40,878
1919	63,297
1926	76,496
1932	51,050
1939	57,123
1945	85,126
Oct. 1952	159,393
Oct. 1953	164,011
Dec. 1954	164,622



30-FAMILY APARTMENT

1913	\$ 84,564
1919	133,435
1926	154,592
1932	107,554
1939	135,085
1945	186,272
Oct. 1952	342,934
Oct. 1953	349,132
Dec. 1954	352,577



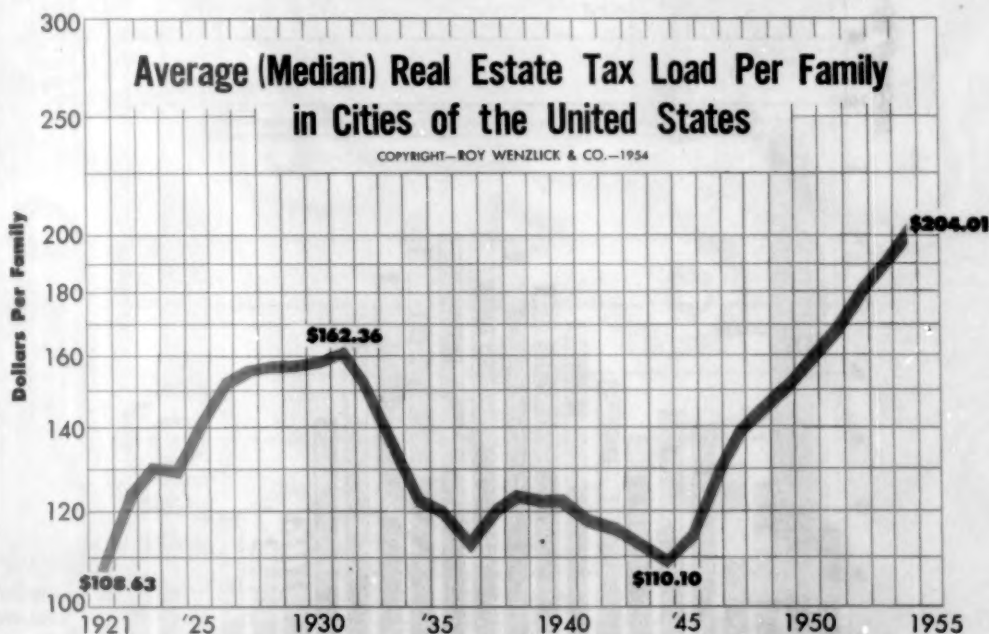
**COMMERCIAL BUILDING
NO BASEMENT**

1913	\$12,190
1919	19,236
1926	22,286
1932	15,505
1939	19,474
1945	23,995
Oct. 1952	50,933
Oct. 1953	52,288
Dec. 1954	52,884

If this occurs, it will be the first time that one real estate boom has followed another without a considerable readjustment intervening, but on the other hand, the fact that something has not happened in the past is no positive proof that it might not occur in the future.

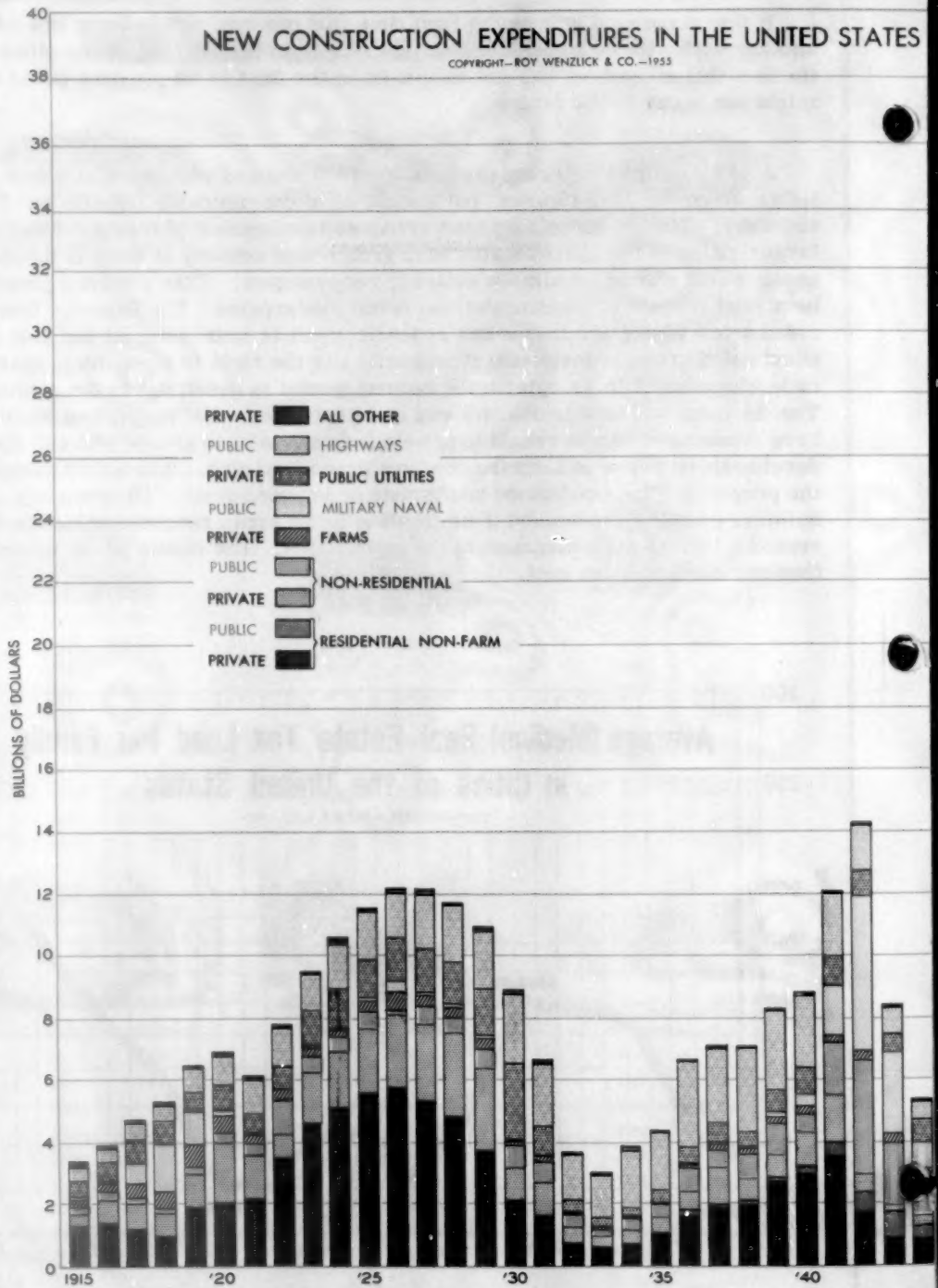
A new factor is entering the real estate field and should be of some slight influence on the 1955 figures, but should be of considerable importance in 1956 and 1957. This is the widespread urban redevelopment planning. Most of the larger cities of the United States have groups now actively at work in delineating areas which should be almost entirely redeveloped. This redevelopment will be a joint project of Government and private enterprise. The Supreme Court decided a few weeks ago that urban redevelopment is constitutional and that a duly constituted urban redevelopment authority has the right to condemn property for redevelopment if in its opinion the redevelopment is beneficial to the community. The decision was unanimous and was quite specific in that properties which have been condemned can be resold to private individuals or to groups who will then redevelop these areas in accordance with a prescribed plan. It is not necessary that the property being condemned be obsolete or in poor repair. Theoretically, a new building could be condemned if its location in the urban redevelopment tract prevented a logical redevelopment of the entire tract. The resale price may be less than the condemnation cost.

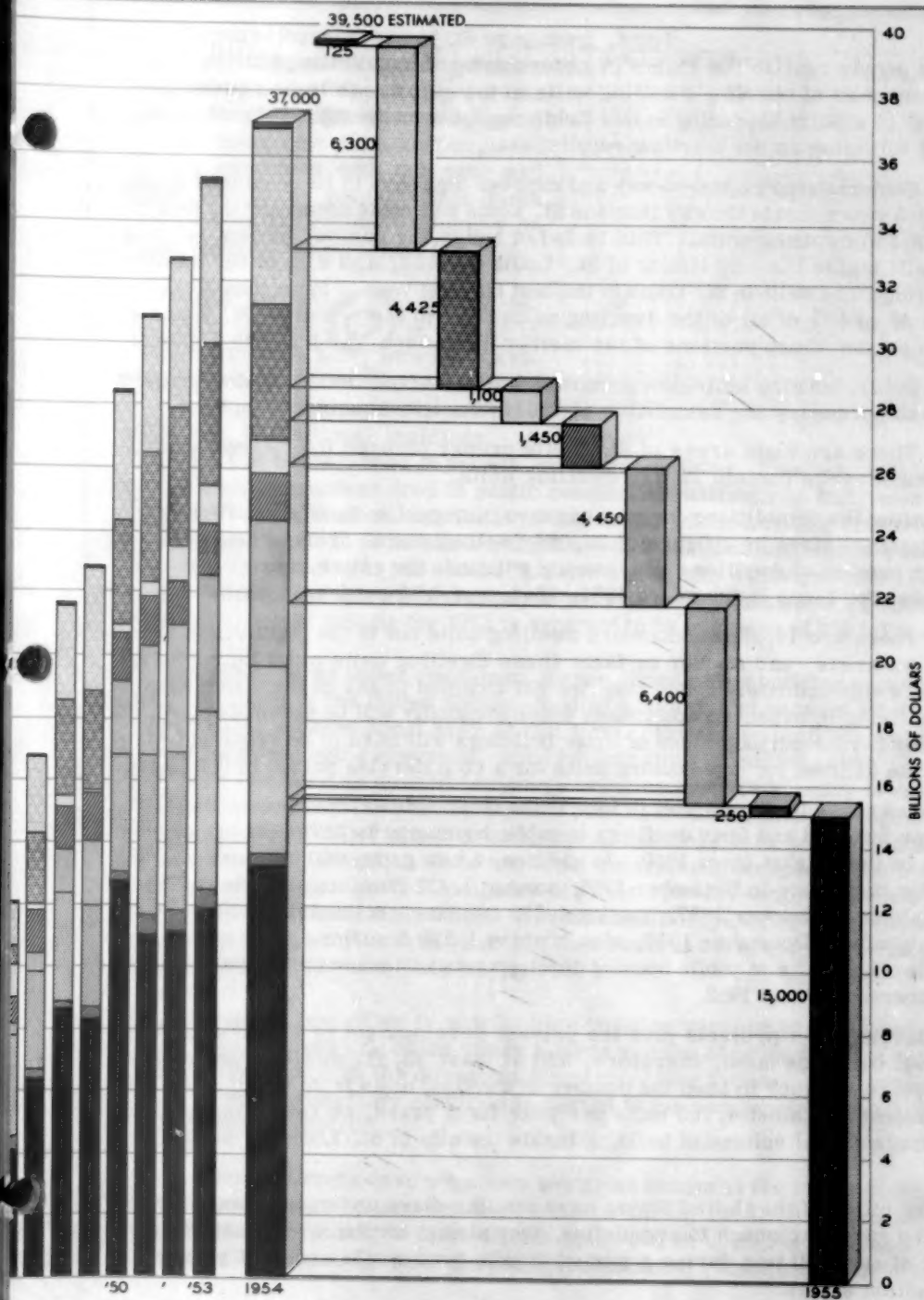
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NEW CONSTRUCTION EXPENDITURES IN THE UNITED STATES

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(cont. from page 7)

Few people realize the extent of redevelopment now in the planning stages and the number of obsolete dwelling units now in the areas to be redeveloped. As a test of what is happening in this field we went over the figures for St. Louis, with the following rather startling results:

a. Contemplated rights-of-way and express highways to be developed during the next 5 years inside the city limits of St. Louis will make necessary the demolition of 3,350 dwelling units. This is 2-1/4 times the number of new dwelling units built inside the city limits of St. Louis in 1953, and 81% of the number of dwelling units built in St. Louis in the best building year in more than 20 years. It amounts to 40% of all of the dwelling units built in Metropolitan St. Louis in 1953, including those portions of the metropolitan area which are in Illinois.

b. Public housing units now programmed to be built in the next few years will make necessary the demolition of 1,615 obsolete housing units.

c. There are eight areas of St. Louis proper planned for redevelopment. These eight areas contain 22,119 dwelling units.

Totaling the demolitions for expressways, for public housing, and for urban redevelopment gives us a figure of 27,084 dwelling units. This is equivalent to a larger number of dwelling units than were built in the entire metropolitan area of Greater St. Louis in the years 1951, 1952, and 1953 combined.

d. There are 14,629 substandard dwelling units not in the eight urban redevelopment areas, and sooner or later these dwelling units must be replaced. There are approximately 5,000 families not included in any of the above figures that are living in basement apartments which eventually will be eliminated. At the end of the 5-year period, many of these buildings will have to be replaced, continuing the demand for new housing units for a considerable period in the future.

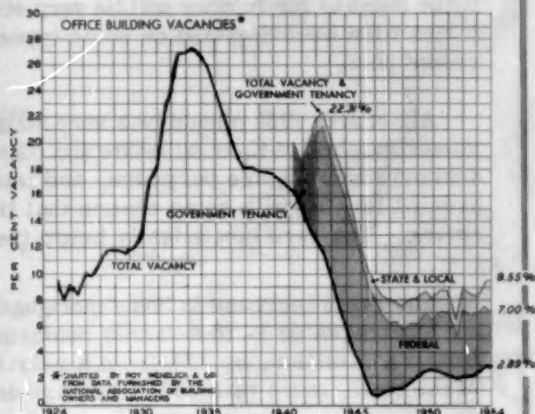
Of course, it is always well to look at the other side of the ledger. Two thousand four hundred and forty dwellings in public housing units have been constructed and put on the market since 1950. In addition, a new group will be completed and ready for occupancy in December 1955, housing 1,132 families. Another unit will be completed in October 1957, housing 1,320 families. A third unit will be ready for occupancy in December 1957, also housing 1,320 families. This means that 3,772 dwelling units in public housing developments will come on the market some time between now and 1958.

Redevelopment projects plus the private development of subdivisions and individual buildings must, therefore, add at least 23,312 dwelling units in the next 5 years in order to keep the number of dwelling units from declining. This is equivalent to almost 4,700 units per year for 5 years, or two to three times the average annual volume of building inside the city of St. Louis in the last few years.

Many cities of the United States have similar plans under way, and if these plans are carried through to completion, they should furnish a very satisfactory volume of new building during a period in which we would ordinarily expect a construction slump.

The very liberal credit of the housing act of 1954 should certainly ensure a sizable residential building volume during the year. The chart on pages 8 and 9 shows how this contemplated volume compares with last year and other preceding years. This same chart shows the estimated volume on other types of construction for 1955.

These estimates show a 7% increase in total construction volume in comparison with 1954, with the heaviest percentage increases in residential, religious, educational, and hospital and institutional buildings. A small part of the increase in private residential building, however, will be offset by a sizable percentage drop in public residential building. In fact, with the exception of educational and institutional buildings, public building construction is expected during 1955 to be below the volume of 1954. Building military facilities, however, is expected to run about 18% above a year ago, highways about 18% above, sewer, water, and miscellaneous public-service enterprises about 8% above. The total construction volume for 1955 is expected to be in excess of \$39 billion.



The chart in the upper right-hand corner shows office building vacancy in the principal cities of the United States. It will be noticed that vacancy hit its highest peak in 1934, running about 27 $\frac{1}{2}$ % at that time. From then until the end of 1946, office space was being absorbed, until by that time it ran less than 1%. Since then there has been an upward tendency, bringing average vacancy in the United States at the present time to slightly less than 3% - still a rather low figure. Federal occupancy of office space in commercial buildings is at present rather high, but is decreasing slightly. State and local government occupancy has increased slightly in the recent past. Occupancy of office space by nongovernmental tenants is at present approximately 90 $\frac{1}{2}$ %. Government occupancy is shown separately from other occupancy as it is probable that Federal occupancy particularly will decline slowly during the next few years.

There are a few cities in which office building vacancy has reached sizable proportions. These are cities where a large volume of office building construction has taken place in the downtown districts. The average city, however, is still in pretty satisfactory condition in regard to the occupancy of its office space in the downtown district.

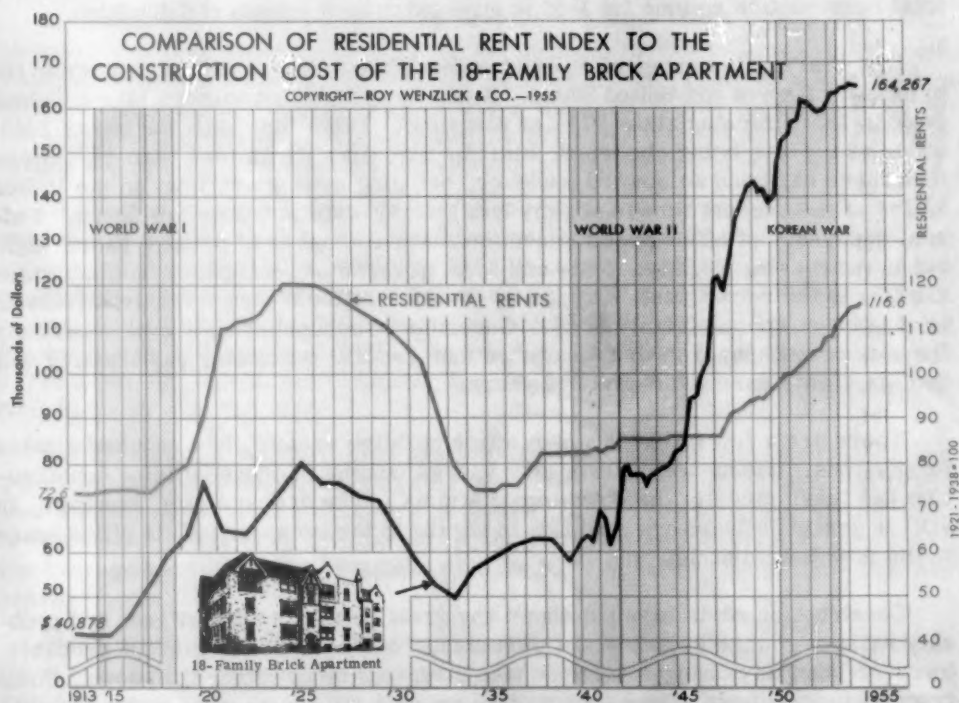
Construction costs have not shown any great change in the last year and probably will not change by any great percentage during 1955. I think it probable, however, that any changes which do take place will be up rather than down. Some types of lumber have shown a marked increase in the recent past, and it looks as

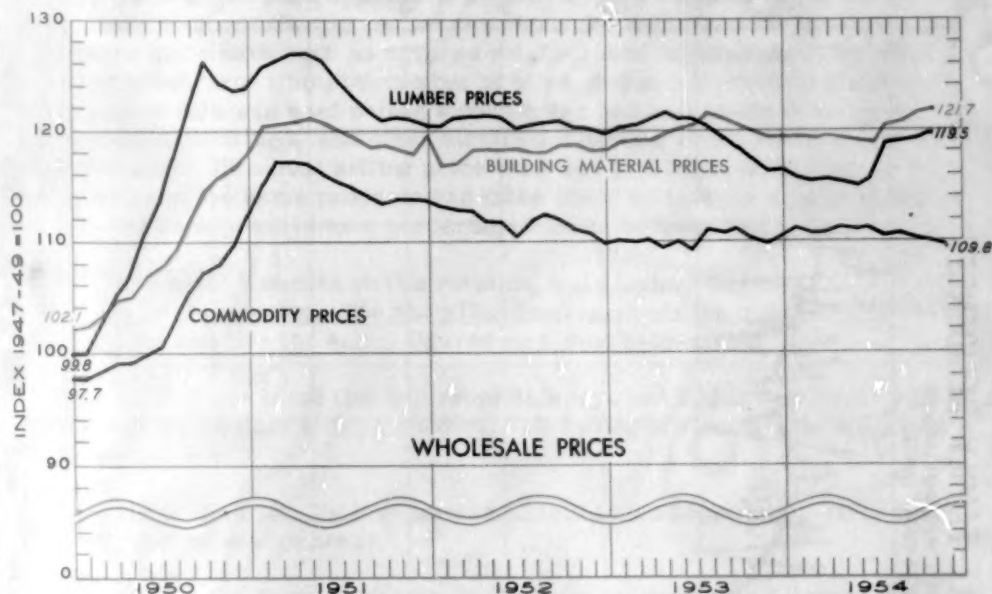
if the demand for lumber will be very strong during the first half of 1955. Inventories have been depleted on some types of lumber because of the strikes of the recent past.

All in all, 1955 should be a very satisfactory year for general business and for most branches of the real estate and construction business. Money will be in great demand for mortgage purposes, and interest rates should hold at least at their present levels, with some chance that they may advance microscopically in the spring. They are now slightly below the levels of a year ago.

The rapid increase in home mortgage debt is somewhat disturbing. Outstanding mortgages on 1- to 4-family nonfarm homes on September 30, 1954, totaled almost \$73 billion, up 12% from a year ago and up $3\frac{1}{2}$ times in the last 9 years. Of the total, more than \$30 billion are underwritten by the Federal Government.

So long as general business activity can be maintained on a high level, no difficulty should be experienced in carrying this mortgage load, but should for one reason or another general business activity drop, with a rise in unemployment, we would immediately find ourselves in considerable mortgage difficulty. Nothing of this sort, however, is contemplated for 1955.

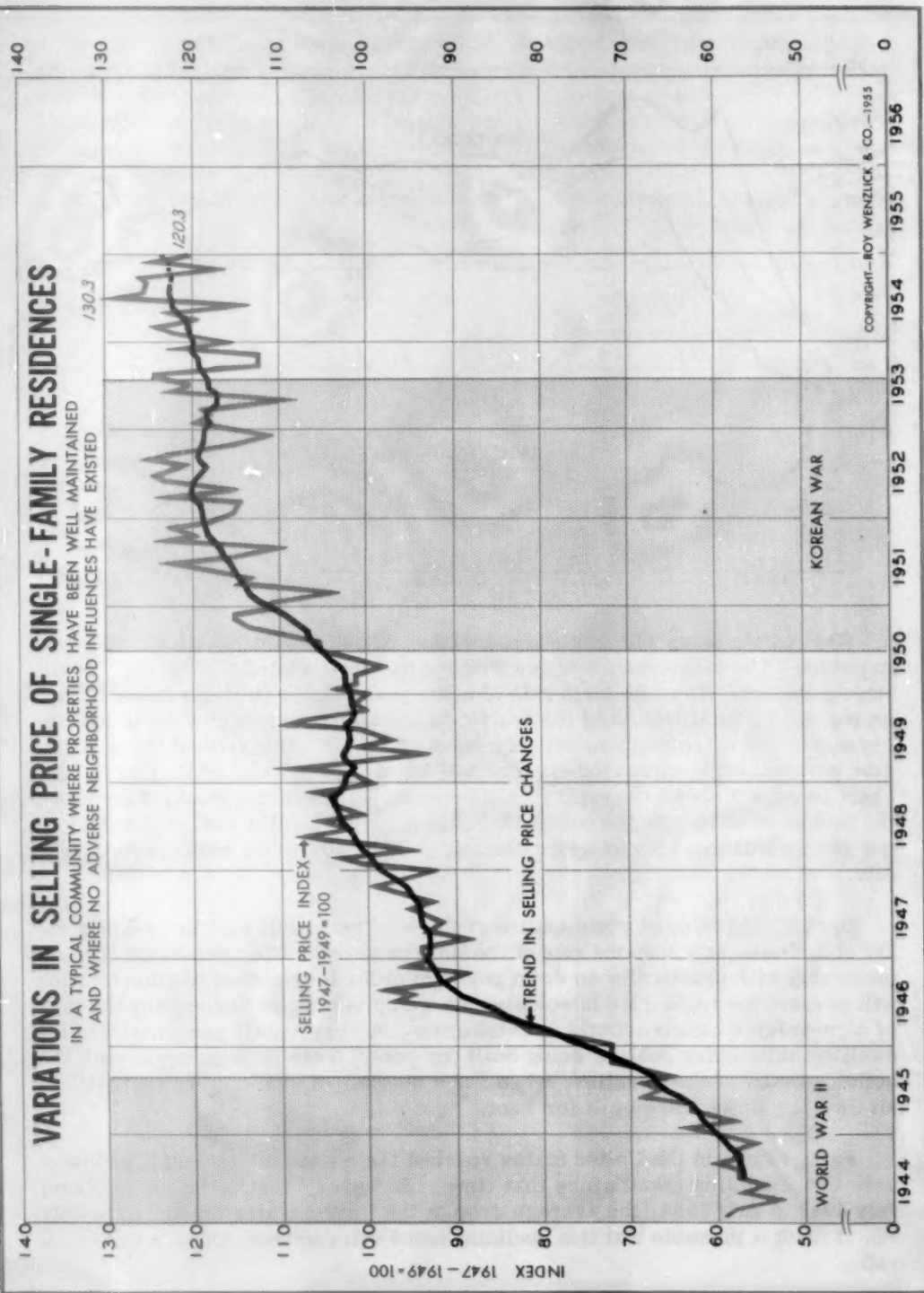




Real estate taxes will continue to increase during 1955 in practically all communities. The large volume of new building has necessitated a great many public improvements. The high birth rate of a few years ago is putting a heavy burden on our school facilities, and the traffic congestion on our highways is making necessary a tremendous road and expressway program. It is inevitable that a sizable portion of this increased expense will be carried by real estate taxes. The chart on page 7 shows the rapid rate of increase in the tax load from 1921 through the middle of 1954. By the end of 1955 it is probable that the real estate tax load per family will increase by approximately another 10% in the average American city.

During 1955 in most communities residential rents will still be creeping up, but at a slower rate than the rate of the last few years. The competition of home ownership with practically no down payment and a long period of amortization will prevent the rapid rise in rents which would otherwise accompany the lack of high-volume construction of rental units. A very small percentage of all dwelling units being built is being built for rent. This is in contrast with the building boom of the twenties, when for a number of years more than 40% of all dwelling units were built for rent.

Farm values in the United States reached their peak in July 1952, and have been in a declining trend since that time. However, during the period from July 1952 to July 1954, the average drop in the United States amounted to only 7%. I think it probable that this declining trend will continue, but at a very slow rate.



The chart on the page opposite is an entirely new computation of our selling price index on single-family residences which are well maintained in communities where there have been no adverse neighborhood influences. This chart is based on about three times the number of sales used in our previous study, and in this study no sale was used unless a photograph had been made of the property, the lot size determined, and other significant details which would affect value were obtained. No actual selling price went into this index unless two or more actual sales of the same property had taken place so that the change in selling price could be expressed as a percentage change between two dates.

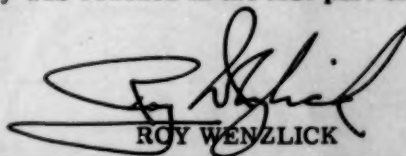
We have spent 7 months on this revision, and I believe that it is the best index which can be constructed. The heavy blue line represents the trend in selling price changes, the red line the actual figures on a month-by-month basis.

During 1955 our trend line will move sideways and slightly upward. I doubt very seriously whether at any time during 1955 sales prices will turn down by any large percentage.

We will publish shortly breakdowns of this index segregating sales into the following four classifications:

1. Modern one-story dwellings, including ranch-type, California bungalows, etc.
2. New and old, good two-story dwellings, showing architectural design which has little obsolescence.
3. Old two-story, containing many obsolescent factors.
4. One- and one-and-a-half-story old, including bungalows. Many of these buildings are obsolete in design.

When these breakdowns by types of buildings appear, it will be found that the good two-story buildings have fared less well than the other types of buildings. The probable explanation is that in this classification are many of the more expensive buildings, and apparently the higher priced buildings sell at a greater discount than the cheaper buildings. The peak for the good two-story properties came in the early months of 1952, with a fairly rapid drop in selling price from then until around the middle of 1953. Since that time there has been a marked recovery, but the selling price is still below the peak. The old two-story more or less obsolete buildings have fared very well throughout the entire period of our chart, and the modern one-story buildings are also doing remarkably well. The peak for this type of property was reached in the last part of 1953.



ROY WENZLICK

CASH INCOME FROM FARM MARKETING

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